



JENNIFER M. GRANHOLM  
GOVERNOR

STATE OF MICHIGAN  
OFFICE OF FINANCIAL AND INSURANCE SERVICES  
DEPARTMENT OF LABOR & ECONOMIC GROWTH  
DAVID C. HOLLISTER, DIRECTOR

LINDA A. WATTERS  
COMMISSIONER

# Memorandum

**DATE:** August 10, 2005

**TO:** All interested parties

**FROM:** Linda A. Watters  
Commissioner of Office of Financial and Insurance Services

**SUBJECT:** Determination of Degree of Competition in Workers' Compensation Insurance Market

Pursuant to MCL § 500.2409, I have determined that a reasonable degree of competition in the workers compensation insurance statewide market exists. Although the workers compensation remains in the hard phase of the underwriting cycle, there are signs of a softening in the workers' compensation insurance market.

Last year's determination on the degree of competition in the workers' compensation insurance market stated that the higher premiums reflected several factors. The workers' compensation market experienced an unusually long soft phase of declining premiums (dating from 1994 through about 2001). The long-term decline in premiums began to threaten profitability. Clearly, the terrorist attack on September 11, 2001 superimposed on an already weak economy contributed to rising premiums. Also, the dramatic stock market correction beginning in 2000 and the historically low interest rates collaborated to reduce insurance company reserves.

The softening in the workers' compensation insurance market can be attributed to the increase in insurance company reserves due, in part, to the recent rise in the stock market and, more recently, increases in money market interest rates. Based on data provided by the Compensation Advisory Organization of Michigan (CAOM), no carrier controls the workers' compensation insurance market. Once again, the Accident Fund Insurance Company of America held its 27 % share of the voluntary market (in 2004, premiums written of \$317 million and in 2003, \$310 million). The second highest premium writer had 4 % of the statewide voluntary market premium.

While there are 16 fewer carriers writing workers' compensation in 2004, 220 carriers continue actively writing the coverage. The average manual rates and ranges show significant disparity among rates. Finally, only those employers engaging in a unique type of business enterprise exhibit the highest percentage of payroll in the Assigned Risk Facility, i.e., find it necessary to obtain coverage in the pool more often than in the voluntary market.

Based on the above data, I have determined that the market for workers' compensation insurance is reasonably competitive.